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MASSACHUSETTS MUNICIPAL ASSOCIATION

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SUMMARY OF PATRICK-MURRAY MUNICIPAL PARTNERSHIP ACT

Filed as HD 4208 on February 15, 2007

Section 1 creates a Municipal Property Tax Exemption Fund for the purpose of reimbursing cities and towns for property taxes abated for qualifying senior citizens. The fund will receive a portion of the local hotel and meal taxes imposed by cities and towns.

Section 2 provides that the deputy commissioner for local services shall also be known as the director of municipal affairs and shall report to the commissioner of revenue and to the secretary of administration and finance.

Section 3 would allow cities and towns to advertise the notice of invitation for bids for a procurement contract on the internet instead of in a local newspaper of general circulation, as is currently required under the Uniform Procurement Act. Municipalities could post the notices on either their own or the commonwealth's website. The Operational Services Division estimates that this change would save cities and towns thousands of dollars each year. According to OSD, this change received the support of the Office of the Inspector General last year and was included in House 1 but was not passed.

Sections 4, 6, 7 and 8 would allow cities and towns, by local option, to use a streamlined coalition bargaining process to negotiate over whether to participate in the Group Insurance Commission. Decisions to participate would depend on the outcome of negotiations, and reaching an agreement between the municipality and a public employee committee which would include representatives from each collective bargaining unit and retirees. The bill has already been filed as separate legislation.

Section 5 would require retirement systems that have a funding ratio of less than 80 per cent and have underperformed the PRIT Fund by at least 2.25 per cent over a 5-year period, as determined by PERAC, to transfer their assets to the PRIT fund for investment. Systems with extenuating circumstances could appeal to PERAC for an exemption from this requirement.

Sections 9 to 20 and section 30 would increase flexibility in municipal borrowing by allowing borrowing for terms consistent with the maximum useful life of the asset, but not more than 30 years, as determined by the mayor, town council or board of selectmen. The bill would also increase flexibility for emergency borrowing, expedite the process for achieving savings through refinancings and remove overly restrictive requirements for amortization of debt.

Section 21 would confirm the existing authority of cities and towns to impose a trash collection fee that is mandatory unless the city or town grants a waiver. The collected fees or charges need not be maintained in a separate fund. The section is intended to validate the type of trash collection program recently invalidated in Springfield.

Section 22 would streamline the process by which local assessors can grant abatements without receiving prior approval from the department of revenue. The commissioner would issue guidelines granting authority to abate for reasons determined by the commissioner to be in the public interest.

Sections 23 to 27 would eliminate utility corporation tax exemptions for telecommunications companies and make them subject to the same exemptions as other business corporations. They would be taxable on machinery used in the conduct of business, and city and town assessors would be responsible for valuing that machinery.

Section 28 would increase the maximum local option hotel tax from 4 per cent to 5 per cent of the rent for occupancy.

Section 29 allows cities and towns by local option to impose a meals tax of up to 2 per cent of gross receipts. Twenty-five per cent of the amount collected under this section and of new amounts collected under section 28 (hotel tax) would be deposited in a reserve fund in the executive office for administration and finance to be used for the purpose of reimbursing cities and towns for property taxes abated for qualifying senior citizens. The balance would be distributed to each city or town that adopts this tax in proportion to the amount received in that city or town.

Sections 31, 32 and 33 would allow communities to continue to shift the percentage of the total tax levy imposed on any class of property in an amount not to exceed 183 per cent of the value of that property divided by the value of all taxable property in the city or town for the next two fiscal years.

Section 34 would create a special commission to study the use of state technology for municipal purposes.

Section 35 would create a special commission to consider ways to grant increased local authority in areas currently requiring home rule petitions. The commission would also investigate methods for providing incentives for best municipal fiscal practices and regionalization of municipal services.

Section 36 would ratify trash collection fees imposed before the effective date of this act.

Massachusetts Municipal Association

Municipal Partnership Act *Advocacy Kit*

Summary and Talking Points on the MPA's Key Provisions

• Communities across the state are facing a deep fiscal crisis, driven by over-reliance on the regressive property tax, the lasting impact of deep local aid cuts imposed several years ago, and increases in health insurance, energy and fixed costs that far exceed normal inflation.

• Cities and towns have been forced to increase the property tax and reduce key services in order to balance their budgets – forcing taxpayers to pay more for less, and this can't continue.

• We are at a 25-year high in property tax reliance – statewide, the property tax pays for a higher portion of local budgets (53%) than at any time since fiscal year 1982.

• Over the past 5 years, the average single family homeowner in Massachusetts has been hit with an overall 32% increase in their annual property tax bill (2002 compared to 2007).

• Cities and towns are facing wide budget gaps again this year, and over $70 million in Prop. 2½ overrides have been proposed, over and above the maximum allowable increase that can be implemented under the law.

• After adjusting for inflation, local aid is $700 million lower today than it was in fiscal 2002.

• Cities and towns need the Legislature to pass the entire Municipal Partnership Act, especially the local option revenues (local option meals and lodging taxes, and closing the outdated telecommunications property tax loophole) – combined, these provisions would generate $350 million that cities and towns would use to reduce the property tax burden, fund and restore essential services, or both.

• Key economic reports and studies by Northeastern University and The Boston Foundation endorse local option taxes and reduced reliance on property taxes as essential steps that Massachusetts must take in order to compete for economic growth, jobs and young families.

More Information on Key Provisions of the Municipal Partnership Act:

Local Option Sales Tax On Meals

Sections 1 and 29 of the partnership legislation would allow cities and towns to adopt a sales tax on meals of up to two percent in addition to the five percent state tax. Municipalities would retain 75% of the local collection with the balance deposited in a fund to be used to increase reimbursements for locally administered property tax "clause" exemptions.

Our neighboring states in the Northeast and in other parts of the country commonly use a tax on meals to help pay for government services. Even if the proposed local option were fully adopted statewide, the combined Massachusetts state and local rate would still be the same or lower than in New Hampshire, Vermont, Rhode Island and other states, counties and cities. There are no real problematic "border" or "competitiveness" issues and a tax on meals has the benefit of substantially exporting the tax to tourists and other temporary residents.

A 2% local sales tax on meals could provide as much as $250 million annually to help pay for police, fire, school and other local government services. It would make cities and towns more self-reliant and would take pressure off the over-burdened property tax.

The Governor's proposal is local option, allowing each city and town to determine the best timing and rate of a tax on meals and to be fully accountable for adoption of the tax and how the revenues are used.

Local Option Room Occupancy Excise

Section 1 and 28 of the partnership legislation would allow cities and towns to add one percentage point to the existing local option room occupancy excise of up to four points. Like with the tax on meals, 75% would be retained locally with the balance used to fund tax exemption reimbursements.

As with the sales tax on meals, Massachusetts lags behind room occupancy rates in other states. Allowing cities and towns to add one additional percentage point to the current local rate will not result in any competitive disadvantages and will result in significant tax exporting.

Closing the Telecommunications Company Property Tax Loophole

Sections 23 through 27 of the partnership legislation would modernize an outdated and obsolete statute in order to end the unwarranted ability of telecommunications companies to remove high value personal property (mostly poles, wires and switching equipment) from local tax rolls, which is currently shifting approximately $80 million in property taxes onto homeowners and other businesses across the state.

One major problem facing local government is the growing obsolescence of the state's property tax language governing exemptions. Increasingly, businesses are removing property from local tax rolls because the law has simply not kept up with changes in technology and business practices. When the property of a particular class of businesses (the telecommunications companies are the most notable example) becomes tax-exempt, the tax burden is picked up by homeowners and other business taxpayers. This is a manageable problem if there is a clear policy reason for the exemption, but it is totally unacceptable if the tax avoidance is due to outdated law, as is the case with the telecommunications loophole. It's time to end this tax loophole that benefits a few telecommunications companies at the expense of our taxpayers and communities across the Commonwealth.

Property Tax Classification

Section 31 through 33 of the partnership bill would stabilize property tax bills by extending the schedule under which cities and towns that adopted the 200 percent CIP factor, based on legislation in 2004, are required to increase the residential share of the property tax levy. The proposed schedule delays by two years the required reduction to 1.83.

Unlike other previous economic cycles when residential and business values rose and fell in similar trends, during and since the 2001 recession residential values continued to grow while business values were generally stagnant or declined. In 2004, the Legislature allowed cities and towns to increase the customary shift in tax burden from residential property to businesses from 175 percent to 200 percent temporarily. The intent of the law was to stabilize property tax bills but return over time to the lower tax shift as residential and business trends normalized.

Group Insurance Commission

Section 4, 6, 7 and 8 of the partnership act would make it easier for cities and towns to consider purchasing health insurance through the state's Group Insurance Commission (GIC).

Health insurance is a nearly unmanageable cost for virtually all employers in America, both public and private, driven by growth in medical costs that greatly exceed general inflation. Cities and towns in Massachusetts are especially burdened by a state law that requires any changes to health insurance to be collectively bargained. By way of contrast, the state has no such obligation to bargain plan design changes or the employer-employee contribution percentage. It is this difference in plan design and contribution rate authority that has burdened cities and towns with health insurance increases that are higher than the 8-10 percent growth that the state has experienced in recent years.

The partnership legislation GIC provision would permit cities and towns to access health insurance coverage for their employees through the GIC after navigating through a challenging collective bargain process called coalition bargaining. The GIC provisions are based on a delicately balanced agreement between public section management and labor facilitated by legislative leaders.

Under the terms of coalition bargaining, municipal unions would establish a public employee committee (PEC), including retired employees, that is weighted by the number of employees in individual unions. Municipal management would bargain with the PEC to determine whether or not the committee would agree to transfer health insurance coverage to the plans offered by the GIC. The negotiations would generally focus on the impact of the changes in the plan design that would occur, and any adjustment in the contribution rates, salaries or other benefits that the city or town would have to make in order to win an agreement with the PEC. Once the decision is made to join the GIC, the municipality would no longer be required to bargain over either the types of plans the GIC has or any plan design changes that the GIC may make in the future.

The GIC proposal does not permanently solve the health insurance cost problem but it could provide temporary relief for some cities and towns that are able to reach agreement with local unions.

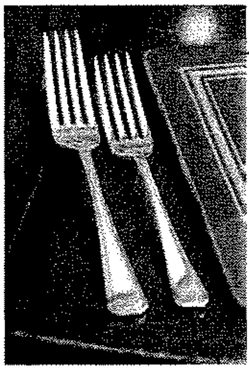
Local Pension Asset Investments

Section 5 of the Partnership Act would require that the assets of local pension systems that fail a new performance standard would be transferred to the state-administered Pension Reserves Investment Trust (PRIT) for investment.

Over the past 20 years, most municipal pension systems have made substantial progress in reducing their unfunded pension liability, but a significant number of systems have lagged behind due to substandard investment performance. Each dollar of substandard return must be made up by either increased property taxes or reductions in local services. The partnership legislation would establish a two-part performance test for local pensions systems. First, is the five-year average annualized local investment performance within 2.5 percentage points of PRIT performance. Second, is the local system at least 80 percent funded?

Any local system that fails both of the performance tests would be required to transfer its assets to PRIT for investment purposes. The legislation includes an appeal provision that would allow local investment to continue if it is clear that local investment makes long-term sense. The partnership legislation is limited to investment standards and transfer of assets for investment purposes. It leaves to the local system customary decision-making on cost-of-living-adjustments (COLA), eligibility for benefits, the funding schedule and all other decisions now made locally.

Already, one-third of local pension systems invest all or a portion of their assets with PRIT. The partnership act would increase local participation where is makes the greatest financial sense for cities and towns and pension system beneficiaries.



Meals Tax: An Alternative to the Property Tax

The local option meals tax of 1% tax could raise as much as $120 million for Massachusetts cities and towns, reducing the property tax burden on homeowners.

The State currently levies a 5% tax on meals, but this revenue is not directly returned to the city or town where the meal was purchased. The local option meals tax would allow cities and towns to benefit directly from the money spent at restaurants in their community. It would also give cities and towns a return on their economic investment in the tourism industry.

A Growing Revenue Source

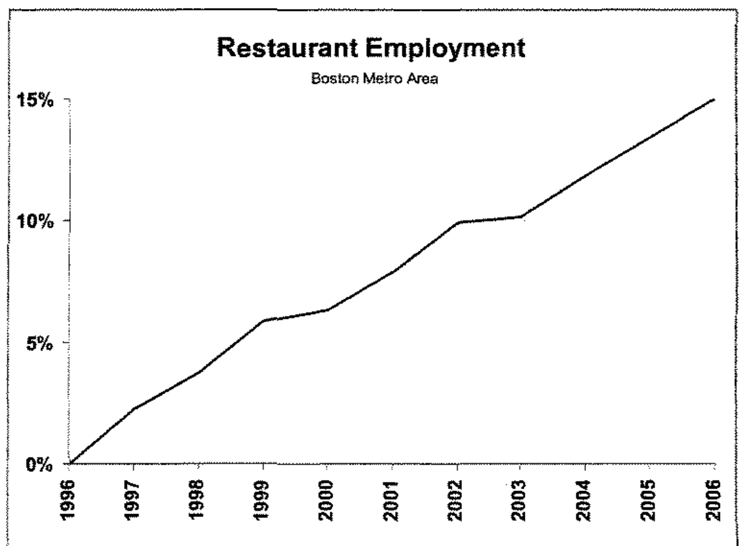
FY08 Meals Tax Revenue

Boston	$19,485,965
Cambridge	$3,812,860
Worcester	$3,345,870
Springfield	$2,398,172
Newton	$1,877,504
Barnstable	$1,687,249
Framingham	$1,659,814
Quincy	$1,644,904
Waltham	$1,502,361
Saugus	$1,438,545

- Since 1998, state meals tax revenue has almost doubled, from $392 million to an estimated $632 million in FY08, increasing at an annual rate of 5%.
- In FY08, if all cities and towns were to adopt the 1% meals tax, more than $120 million in tax revenues would be generated and could be used to reduce reliance on property taxes.
- The meals tax has been at 5% or higher since the mid-1960's.

Negligible Effect on Industry Growth

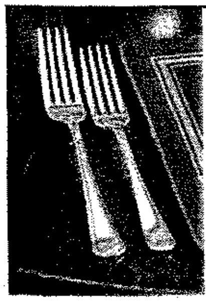
- The Massachusetts restaurant industry is strong and growing. In the last decade restaurant employment has grown by 16%, 2.5 times the rate in all other industries.
- Even with a 1% addition to the rate, Massachusetts would have the lowest rate among competitive states (see reverse side).
- Given the industry's robust performance, a 1% tax will have little impact on restaurant sales or employment.



Consumer Impact Minor, Borne by Non-Residents

Two thirds of the meals tax in Suffolk County is paid by non-residents –Visitors, businesses and commuters. Just a third would be paid by area residents.

A Boston area family with an average income would spend just an additional $25 a year on dining out.



Still Lowest Among New England States and Comparable Cities

States	State	City/County	Other Local**	Total
Vermont	**9.00%**	1.00%	NA	10.00%
New Hampshire	**8.00%**	NA	NA	8.00%
Rhode Island	**7.00%**	1.00%	NA	8.00%
New York*	**4.00%**	4.00%	0.38%	8.38%
Maine	**7.00%**	NA	NA	7.00%
Connecticut	**6.00%**	NA	NA	6.00%
Massachusetts (PROPOSED)	**5.00%**	**1.00%**	**NA**	**6.00%**

*New York City

Major Cities	State	City	Other Local**	Total
Chicago	5.00%	**2.50%**	2.75%	10.25%
Washington D.C.	0.00%	**10.00%**	0.00%	10.00%
Seattle	6.50%	**0.85%**	1.95%	9.30%
New Orleans	4.00%	**2.50%**	2.50%	9.00%
San Francisco	6.25%	**2.25%**	0.00%	8.50%
New York	4.00%	**4.00%**	0.38%	8.38%
Austin	6.25%	**1.00%**	1.00%	8.25%
Atlanta	4.00%	**1.00%**	3.00%	8.00%
Denver	2.90%	**4.00%**	0.80%	7.70%
Las Vegas	6.50%	**0.00%**	1.25%	7.75%
Miami***	6.00%	**0.00%**	1.00%	7.00%
Philadelphia	6.00%	**1.00%**	0.00%	7.00%
Orlando***	6.00%	**0.00%**	0.50%	6.50%
Boston (PROPOSED)	**5.00%**	**1.00%**	**0.00%**	**6.00%**

** County, Transit authority districts, or other taxing authorities.

***State of Florida distributes 0.5% of the state sales tax to local governments

Compiled by Office of Budget Management, City of Boston